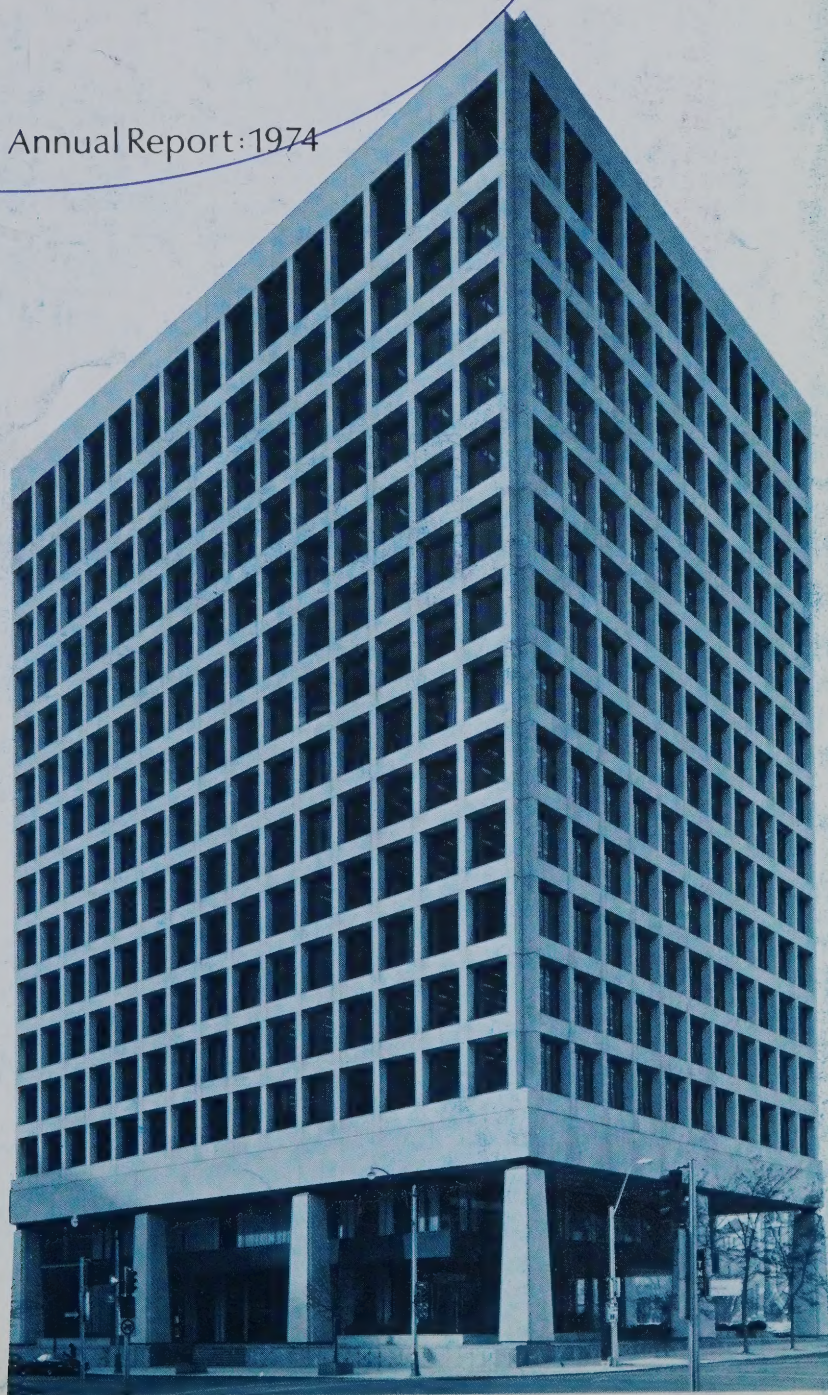


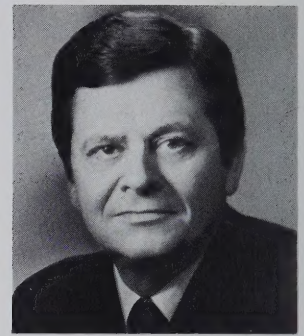
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NATIONAL LIFE
OF CANADA



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Seventy-sixth Annual Report: 1974



The year 1974 saw National Life complete its seventy-fifth year of operation. It was a year that will be remembered for this and many other extraordinary Company events. In March, we made the long-awaited move to our new Head Office building on University Avenue. On the last day of May, we passed the milestone of one billion dollars of individual life business in force. In September, after three years of preparatory work, we began the changeover to a computer system which we call NALIS, a system which integrates all functions related to the issue and administration of individual insurance policies. It provides us with the capacity to handle large volumes of business with greater speed and efficiency. During the year, common stock prices fell at a rate surpassed only four times in the past hundred years and during the same period the drop in bond prices carried interest rates above levels previously reached throughout those years. As with most federally supervised Canadian life insurance companies, National Life's surplus and contingency reserves are more than adequate to safeguard our liabilities to policyholders under such adverse security market conditions.



J. A. RHIND
President

Finally, 1974 was a year in which the success of our field force brought the level of new business well beyond the increases we had planned at the beginning of the year.

The remarkable accomplishments of the past year, when combined with our sound financial position, have created a base for further growth and improved service to National Life policyholders and agents in 1975 and in the years ahead.

OUR PROGRESS AT A GLANCE

New Life Business

	1974	1973
Individual — Direct Written	\$ 289,732,558	\$ 204,103,058
Less Excess of Reinsurance Ceded over Received	124,809,823	5,753,610
Individual — Net	164,922,735	198,349,448
Group Insurance	279,010,266	299,655,925
Group Annuity	1,531,462	1,231,402
Total	445,464,463	499,236,775

Life Business in Force

Individual	1,008,156,386	950,262,748
Group Insurance	2,787,644,579	2,332,668,753
Group Annuity	643,814,664	603,215,220
Total	4,439,615,629	3,886,146,721

(All figures net of reinsurance ceded, unless otherwise indicated. 1973 new and in force individual business have been restated on a basis comparable with 1974.)

Premium Income	73,716,896	65,694,139
Investment Income	26,946,230	22,685,172
Benefits Paid or Provided For	65,957,372	71,866,583
Total Assets	384,793,617	356,571,245
Net Earned Interest Rate with no adjustment for Canadian income taxes	7.63%	7.34%
Capital and Surplus	20,139,584	19,293,610

REPORT OF THE BOARD OF DIRECTORS

Business Activity

Sales of individual life business written directly, that is, before including reinsurance received from other companies and before deducting reinsurance ceded, increased 42% in 1974 over the previous year, to reach \$290 million. During the year a reinsurance agreement was concluded under which a large block of National Life's U.S. individual insurance was coinsured with Capital Service Life Insurance Company, which, like National Life, is an affiliate of The Continental Insurance Companies. After allowing for this unusual level of reinsurance ceded, net individual new life business for the year was \$165 million and net individual business in force, which was reduced \$105 million by this agreement, exceeded the long-sought objective of one billion dollars. (See page 1 for comparative figures.)

New group life insurance amounted to \$280 million. Total life business in force, net of reinsurance, was \$4.4 billion. Disability health insurance, chiefly group, accounted for \$11.7 million of premium income during the year.

Assets

Exclusive of segregated funds, assets increased by 11% to \$289 million. Investment in mortgages increased by \$9.9 million, bonds by \$7.4 million and common stocks by \$6.6 million. Policy loans rose by \$2.5 million compared to \$1.2 million in 1973. The net rate of interest earned on the Company's assets, after deducting investment expenses and with no adjustment for income taxes, rose to 7.63% from 7.34%.

Net contributions to segregated funds were \$13.5 million, compared to \$10.7 million in 1973. As a result of the major decline in security prices the total market value of segregated fund assets showed only a small increase to a year-end figure of \$96 million.

Operating Results

Statutory operating income before income tax was \$1,215,077 compared to \$949,888 in 1973. Before-tax

income for 1974 was affected by certain exceptional items including \$980,000 of expenses related to the move to our new Head Office and the contribution of \$1,300,000 toward operating income resulting from the reinsurance agreement with Capital Service Life. Unfavourable mortality experience, the strain of writing such a large increase in new business, expenses attributable to the computer conversion and substantially improved results from group life and health were further unusual crosscurrents affecting 1974 statutory income.

The high amount of Canadian income taxes, as compared to statutory operating income before taxes, arises because of significant differences between the calculation of income for statutory and tax purposes. For example, Head Office relocation expenses must be charged against statutory earnings for the year, whereas in the calculation of taxable income, most of these expenses must be capitalized and depreciated over a period of years.

Board of Directors

The resignation of William P. Wilder was accepted with regret. On August 29th William J. Corcoran, Executive Vice-President of McLeod, Young, Weir and Co. Ltd., was elected a policyholders' director.

Appreciation

The extraordinary events of the past year, particularly the computer conversion, have placed a heavy burden on people at National Life. Many in the Head Office have worked a great number of hours of extra time and the sales force has had to cope with delays in service. It has been a year when the character of National Life has been demonstrated by the loyalty, team spirit and perseverance of its people. The Directors wish to extend their strong feelings of appreciation to the staff and field force of the Company.

J. A. Rhind,
President.

AUDITORS' REPORT TO THE POLICYHOLDERS, SHAREHOLDERS AND DIRECTORS

We have examined the statement of assets and liabilities of The National Life Assurance Company of Canada as at December 31, 1974 and the statements of income and capital and surplus funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances; the provisions for future guaranteed benefits, for experience rating refunds on

group policies and for policyholders' dividends were determined and certified by the Company's Actuary.

In our opinion, based on our examination and the certificate of the Actuary, these financial statements present fairly the financial position of the Company as at December 31, 1974 and the results of its operations for the year then ended in accordance with accounting practices prescribed or permitted by the Department of Insurance of Canada.

Toronto, Canada,
February 18, 1975

CLARKSON, GORDON & CO.
Chartered Accountants

STATEMENT OF INCOME

Year ended December 31

INCOME

	1974	1973
Insurance and annuity premiums	\$73,716,896 ✓	\$65,694,139
Interest, dividends and rents	26,946,230 ✓	22,685,172
Net realized and unrealized capital gains (losses) on assets of segregated funds	(19,209,172)	(2,902,970)
Total	<u>81,453,954</u>	<u>85,476,341</u>

DISPOSITION OF INCOME

Death and disability benefits	25,632,861	20,462,953
Matured endowments and surrender benefits	12,804,633	7,474,418
Annuity payments	2,597,626	2,208,010
Interest on deposits by policyholders	742,251	631,987
Provision for future guaranteed benefits	19,253,260	23,274,247
Provision for future benefits from segregated funds	591,795	12,335,391
Provision for experience rating refunds on group policies	11,353	1,820,242
Other benefit payments	<u>451,903</u>	<u>384,476</u>
Sub-total — Benefits paid or provided for excluding dividends to policyholders	62,085,682	68,591,724
Commissions net of commissions on reinsurance ceded	1,971,408	3,292,297
General insurance expenses	9,706,931	7,199,821
Taxes other than Canadian income taxes	1,151,958	936,789
Investment expenses	<u>1,451,208</u>	<u>1,230,963</u>
Total	<u>76,367,187</u>	<u>81,251,594</u>
Statutory operating income before dividends to policyholders and Canadian income taxes	5,086,767	4,224,747
Dividends to policyholders	3,871,690	3,274,859
Statutory operating income before Canadian income taxes	1,215,077	949,888
Provision for Canadian income taxes	894,000	830,000
Net statutory operating income	<u>\$ 321,077</u>	<u>\$ 119,888</u> ✓

STATEMENT OF CAPITAL AND SURPLUS FUNDS

Year ended December 31

	1974	1973
Net statutory operating income	\$ 321,077	\$ 119,888
Net realized capital gains (after taxes) on assets of other than segregated funds	184,897	240,168
Overprovision of prior years' income taxes	<u>340,000</u>	<u>—</u>
Total	845,974	360,056
Capital and surplus funds beginning of year	<u>19,293,610</u>	<u>18,933,554</u>
Capital and surplus funds end of year	<u>\$20,139,584</u>	<u>\$19,293,610</u>

STATEMENT OF ASSETS AND LIABILITIES

December 31

1974

1973

ASSETS

Government of Canada bonds	\$ 4,929,456	\$ 4,694,361
Provincial and municipal bonds	39,067,216	38,915,051
Corporate bonds	78,623,996	71,778,972
Other bonds	9,014,198	8,818,150
Bonds	131,634,866	124,206,534
Preferred stocks	1,291,196	1,895,164
Common stocks	22,462,101	15,884,856
First mortgage loans	105,398,394	95,524,229
Policy loans	13,382,854	10,854,164
Real estate held for investment	4,543,322	4,731,135
Invested assets other than segregated funds	278,712,733	253,096,082
Cash	244,907	80,049
Premiums receivable	4,336,666	3,274,762
Interest due and accrued	3,963,818	3,652,050
Due from an affiliate	751,543	—
Other assets	868,673	1,075,088
Total assets other than segregated funds	288,878,340	261,178,031
Segregated funds	95,915,277	95,393,214
Total assets	<u>\$384,793,617</u>	<u>\$356,571,245</u>

LIABILITIES, CAPITAL AND SURPLUS FUNDS

Provision for future guaranteed benefits	\$227,296,500	\$208,043,240
Provision for claims pending	11,280,876	8,566,556
Provision for policyholders' dividends	3,404,544	2,931,571
Provision for experience rating refunds on group policies	5,448,546	5,437,193
Amounts left on deposit by policyholders	15,792,650	14,051,500
Short-term indebtedness	2,826,791	1,898,102
Other liabilities	3,011,058	1,483,868
Total liabilities other than segregated funds	269,060,965	242,412,030
Segregated funds	95,593,068	94,865,605
Total liabilities	<u>364,654,033</u>	<u>337,277,635</u>
Capital stock — 100,000 shares of \$10 par value	1,000,000	1,000,000
Investment and contingency reserves	6,725,000	4,650,000
Surplus	12,414,584	13,643,610
Total capital and surplus funds	20,139,584	19,293,610
Total liabilities, capital and surplus funds	<u>\$384,793,617</u>	<u>\$356,571,245</u>

Notes:

1. Bonds are carried at amortized cost or less and stocks at cost or less, except for those included among assets held for segregated funds, which are carried at market value. At December 31, 1974 these values in the aggregate exceed the aggregate value authorized by the insurance law of Canada by \$6,725,000. The investment and contingency reserves of that amount were increased \$2,075,000 during the year by a transfer from surplus.
2. \$1 U.S. and \$1 Bermuda are treated as equivalent to \$1 Canadian, £1 Sterling as \$2.40 Canadian, \$1 Jamaican and \$1

Cayman as \$1.20 Canadian and \$1 West Indies and 1 Guilder as \$0.50 Canadian. If current rates of exchange had been used, there would have been no material change in surplus funds shown.

3. The 1974 Statement of Income includes several exceptional items which are referred to under Operating Results in the Report of the Board of Directors. The 1973 figures have been reclassified to conform with the 1974 presentation.

BOARD OF DIRECTORS

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Canada Realities Limited*

DAVID D. GRAY*
*Executive Vice-President
The Continental Insurance Companies*

THE HONOURABLE JOHN B. AIRD, Q.C.*
Aird, Zimmerman and Berlis

HAROLD R. LAWSON
Retired Chairman of the Board

LAWRENCE C. BONNYCASTLE*
*Vice-Chairman of the Board
Canadian Corporate Management Co. Ltd.*

CLAUDE PRATTE, Q.C.
Advocate

JOHN E. BRENT
*Chairman of the Board
I.B.M. Canada Ltd.*

JOHN A. RHIND*
President

WILLIAM J. CORCORAN
*Executive Vice-President
McLeod, Young, Weir & Co. Ltd.*

HAROLD W. THOMSON
*Director
Canadian Imperial Bank of Commerce*

GEORGE I. DAVIS
Retired

DAVID G. WALDON
*President
Interprovincial Pipe Line Ltd.*

CHARLES T. P. GALLOWAY*
Vice-President and Actuary

NATHAN H. WENTWORTH
*Chairman of the Board
The Continental Corporation*

**Member of the Executive Committee*

EXECUTIVE OFFICERS

J. A. RHIND
President

C. T. P. GALLOWAY, F.S.A., F.C.I.A.
Vice-President and Actuary

F. M. CRISPO
Vice-President and Treasurer

R. H. MASON, C.A.
Vice-President and Comptroller

R. H. C. FENTON, C.L.U.
Vice-President and Director of Agencies

J. K. WILLIAMS, Q.C.
Vice-President and Secretary

THE NATIONAL LIFE ASSURANCE COMPANY OF CANADA

Head Office: 522 University Avenue, Toronto, Canada M5G 1Y7